

Message Text

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ACTION MMO-04

INFO OCT-01 EUR-12 NEA-10 ISO-00 SP-02 USIA-15 AID-05
EB-07 NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01
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PA-02 PRS-01 /115 W
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R 220652Z JUN 77
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 4229
INFO AMEMBASSY DACCA
AMEMBASSY ISLAMABAD
AMEMBASSY KATHMANDU
AMEMBASSY LONDON
USMISSION OECD PARIS
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

UNCLAS SECTION 1 OF 2 NEW DELHI 8875

PASS TREASURY AND FRB

E.O. 11652: N/A
TAGS: ECRP EFIN IN
SUBJECT: CERP 0200 - INDIAN BUDGET FOR 1977/78

SUMMARY: IN PRESENTING TO PARLIAMENT THE FIRST
BUDGET OF THE JANATA GOVERNMENT, FINANCE MINISTER
PATEL PROPOSED RS. 1.3 BILLION IN ADDITIONAL TAXES
WITH TOTAL REVENUES OF RS. 154.96 BILLION AND EXPENDITURES OF
RS. 155.68 BILLION THUS LEAVING ONLY A VERY SMALL
ESTIMATED DEFICIT OF RS. 720 MILLION IN 1977/78. THE
BUDGET AIMS AT REORIENTING THE ECONOMY TOWARDS RURAL
DEVELOPMENT, EMPLOYMENT GENERATION AND REDUCTION OF
INCOME AND WEALTH DISPARITIES. HOWEVER, AS EXPECTED GIVEN
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THE LIMITED TIME THE NEW GOVERNMENT HAS HAD TO WORK ON A BUDGET
PREPARED BY THE FORMER ADMINISTRATION, THERE WERE ONLY LIMITED
INCREASES IN EXPENDITURES FOR AGRICULTURE AND SMALL SCALE
INDUSTRY, AND THERE WERE SOME CHANGES IN TAXES TO ENCOURAGE THESE
SAME SECTORS. THE NEW STEPS WERE CONSERVATIVE, HOWEVER, AND
FUCUSED ON REDUCING THE DEFICIT (AND INFLATION--THE MAIN ECONOMIC
OBJECTIVE).

THE NEW BUDGET DOES NOT REFLECT ANY INTEGRATED VIEW OF ECONOMIC DEVELOPMENT NOR DID IT PRODUCE ANY IMAGINATIVE PROGRAM FOR PUSHING UP THE RATE OF GROWTH. WE EXPECT OVER THE COMING MONTHS TO HEAR MORE ABOUT PLANS FOR RESTRUCTURING ECONOMIC GROWTH, BUT THE BUDGET DEBATE NOW BEGINNING SHOULD REVEAL THE AMOUNT OF FLEXIBILITY THE JANATA COALITION WILL HAVE IN REORDERING ITS ECONOMIC PRIORITIES.

END SUMMARY.

1. FINANCE MINISTER PATEL PRESENTED AN INTERIM BUDGET ON MARCH 28, BUT THE REGULAR 1977/78 BUDGET PRESENTED ON JUNE 17 REFLECTS EFFORTS BY THE NEW GOVERNMENT TO MEET COMMITMENTS MADE IN THE PARTY'S MANIFESTO. INCREASED TAXES ON INCOME AND WEALTH, CARS AND SCOOTERS, CIGARETTES, FANS AND FILMS HAVE BEEN COMBINED WITH CONCESSIONS LIKE RAISING THE INCOME TAX EXEMPTIONS LIMIT FROM RS. 8,000 TO RS. 10,000, AND A BIG CUT IN IMPORT DUTY ON STAINLESS STEEL.

2. ALTHOUGH THE BUDGET IS BASICALLY A CONVENTIONAL ONE, TAX CONCESSIONS HAVE BEEN MADE TO AID THE RURAL SECTOR AND SMALL SCALE INDUSTRY. TOTAL ANNUAL PLAN OUTLAYS OF RS. 99.6 BILLION FOR THIS FISCAL YEAR, OF WHICH RS. 49.4 BILLION COMES FROM THE CENTRAL GOVERNMENT BUDGET, HAVE BEEN STEPPED UP BY 27 PERCENT, WITH 30 PERCENT OF THE TOTAL ALLOCATIONS GOING TO VARIOUS ASPECTS

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OF AGRICULTURE AND AGRICULTURAL DEVELOPMENT. IN ADDITION, PROVISION IS MADE FOR THE GENERATION OF 2.5 MILLION JOBS IN THE RURAL SECTOR. SEVERAL FISCAL INCENTIVES HAVE BEEN GIVEN TO THE HANDLOOM AND POWERLOOM SECTORS WHOSE PRODUCTS ARE MANUFACTURED BY COTTAGE INDUSTRIES.

3. CAPITAL MARKETS ARE TO BE STIMULATED BY REDUCING THE RIGORS OF CAPITAL GAINS TAX WHERE SUCH GAINS ARE INVESTED IN COMPANY SHARES OR OTHER APPROVED FORMS OF SAVINGS. THE INVESTMENT CLIMATE IS EXPECTED TO BE STIMULATED BY THE EXTENSION OF THE DEVELOPMENT ALLOWANCE TO ALL INDUSTRIES AND LIBERAL IMPORTS OF SELECTED RAW MATERIALS (SUCH AS STEEL COPPER, ALLOY STEEL AND STAINLESS STEEL) AT SUBSTANTIALLY REDUCED RATES OF IMPORT DUTIES.

4. TOTAL GOVERNMENT EXPENDITURES OF RS. 155.7 BILLION CONTAINED IN THE REVENUE AND CAPITAL BUDGETS ARE TO BE ALLOTTED AS FOLLOWS: RS. 88.62 BILLION (57 PERCENT) WILL BE FOR DEVELOPMENT, OF WHICH RS. 39.78 BILLION WILL BE FOR PROGRAMS UNDER THE ANNUAL CENTRAL PLAN (AN INCREASE OF 19 PERCENT OVER LAST YEAR'S ESTIMATED EXPENDITURES WITH THE AMOUNT ALLOCATED FOR AGRICULTURE AND ALLIED

SERVICES UP FROM RS. 2.95 BILLION TO RS. 4.91 BILLION OR 66 PERCENT); RS. 27.52 BILLION FOR DEFENSE (ALMOST 18 PERCENT OF THE BUDGET); RS. 16 BILLION FOR INTEREST PAYMENTS (10 PERCENT) AND RS. 13.97 BILLION FOR OTHER EXPENDITURES (9 PERCENT). THIS PATTERN IS MUCH THE SAME AS LAST YEAR. FOR DETAILS SEE TABLE BELOW.

5. PERSONAL TAXATION - IN AN EFFORT TO REDUCE INCOME AND WEALTH DISPARITIES THE MAIN BURDEN OF NEW TAXES HAS FALLEN ON LUXURY ITEMS AND THE WEALTHIER SECTORS OF SOCIETY. THE GOVERNMENT HAS LIVED UP TO ITS ELECTION PLEDGE BY RAISING THE INCOME TAX EXEMPTION LIMIT TO RS. 10,000 BUT AT THE SAME TIME IT HAS RAISED THE INCOME TAX SURCHARGE BY 5 PERCENT TO 15 PERCENT. AS A RESULT, UNCLASSIFIED

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THE MAXIMUM RATE OF INCOME TAX HAS GONE UP FROM 66 PERCENT TO 69 PERCENT. THE TAX ON WEALTH ABOVE RS. 250,000 HAS ALSO BEEN INCREASED BY 0.5 PERCENT, WHILE THE HIGHEST WEALTH TAX RATE ABOVE RS. 1.5 MILLION HAS BEEN INCREASED BY 1 PERCENT TO 3.5 PERCENT. AS AN ANTI-INFLATIONARY MEASURE THE COMPULSORY DEPOSIT SCHEME FOR INCOME TAX PAYERS EARNING OVER RS. 15,000 PER YEAR HAS BEEN EXTENDED FOR ANOTHER TWO YEARS. TAX RELIEF OF 50 PERCENT WILL BE GIVEN IN RESPECT OF REMUNERATION RECEIVED IN FOREIGN CURRENCY BY INDIAN TECHNICIANS WORKING OVERSEAS.

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PASS TREASURY AND FRB

6. CORPORATE TAX - CORPORATIONS WILL BE EXEMPT FROM THE HIGHER SURCHARGE AND WILL CONTINUE TO PAY ONLY 5 PERCENT. HOWEVER, THE FACILITY FOR DEPOSITING THE 5 PERCENT TAX SURCHARGE WITH THE IDBI INSTEAD OF PAYING IT TO THE GOVERNMENT HAS BEEN ABOLISHED. THE INVESTMENT ALLOWANCE HAS BEEN EXTENDED TO ALL INDUSTRIES EXCEPT LOW PRIORITY ONES. A RURAL DEVELOPMENT ALLOWANCE HAS BEEN INTRODUCED WHERE A COMPANY CAN DEDUCT FROM TAXABLE PROFITS EXPENDITURES INCURRED IN A RURAL DEVELOPMENT PROJECT. IN ADDITION, A TAX CONCESSION OF 20 PERCENT WILL BE PROVIDED FOR SMALL SCALE INDUSTRY UNDERTAKINGS SET UP IN RURAL AREAS. TO PROMOTE THE USE OF INDIAN TECHNOLOGY AND STEP UP DEMAND AN INVESTMENT ALLOWANCE OF 35 PERCENT WILL

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BE GIVEN TO UNITS USING TECHNOLOGY DEVELOPED BY GOVERNMENT LABORATORIES, UNIVERSITIES AND PUBLIC SECTOR UNITS.

7. OTHER TAX CHANGES INCLUDE A HIKE IN EXCISE DUTY ON CARS BY 2.5 PERCENT, ON TWO AND THREE WHEELERS BY 3.5 PERCENT, BUT THESE INCREASES HAVE BEEN COUPLED WITH THE ABOLITION OF THE DUTY ON TIRES, TUBES AND BATTERIES SUPPLIED WITH NEW VEHICLES. DUTY ON CIGARETTES HAS BEEN MADE MORE PROGRESSIVE WITH THE HIGHEST INCIDENCE FALLING ON THE HIGHER PRICE BRANDS. HOWEVER, THE DUTY ON BIDIS, THE COMMON MAN'S CIGARETTE, HAS BEEN DOUBLED. EXCISE DUTY ON WATCHES AND CLOCKS IS TO BE IMPOSED AT A RATE OF 10 PERCENT, BUT IMPORT DUTY ON WATCHES IMPORTED THROUGH HINDUSTAN MACHINE TOOLS WILL BE CUT FROM 120 PERCENT TO 45 PERCENT. THE 10 PERCENT EXCISE DUTY WILL ALSO APPLY TO ELECTRIC LIGHT FITTINGS, POLISHES, AND HAND TOOLS. THE REAL SWEETENER IN ALL THESE VARIOUS CHANGES IS THAT THE TAX ON SWEETS AND TOFFEES HAS BEEN ABOLISHED.

8. TAX ON FOREIGN RESIDENTS AND COMPANIES - ON PAYMENTS TO NON-RESIDENTS DURING THE FINANCIAL YEAR 1977/78, TAX WILL BE DEDUCTABLE AT THE MINIMUM RATE OF 34.5 PERCENT, MADE UP OF 30 PERCENT INCOME TAX AND

SURCHARGE OF 4.5 PERCENT. IN RESPECT TO INTEREST ON
TAX-FREE SECURITIES, THE RATE WILL BE 17.25 PERCENT.
CHANGES ARE BEING PROPOSED FOR THE TAXATION OF COPYRIGHT
ROYALTIES TO FOREIGN COMPANIES.

9. THE REVENUE AND CAPITAL RECEIPTS SIDE OF THE
BUDGET, RS. 155.0 BILLION, IS UP 12.6 PERCENT OVER
REVISED ESTIMATES FOR FY 1976/77. COMPONENTS ARE AS FOLLOWS:

(1) TOTAL CENTER'S REVENUE ESTIMATED TO INCREASE FROM
RS. 85.0 BILLION TO RS. 95.54 BILLION IN 1977/78; (2)
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NEW MARKET BORROWINGS ESTIMATED TO INCREASE FROM
RS. 8.49 BILLION (REVISED ESTIMATE) IN IFY 1976/77 TO
RS. 10 BILLION IN 1977/78; (3) NET FOREIGN LOANS (AID)
OF RS. 8.94 BILLION COMPARED TO RS. 7.34 BILLION REVISED
ESTIMATE; (4) RECOVERY OF LOANS AND ADVANCES FROM STATE
AND UNION TERRITORY GOVERNMENTS AND OTHERS OF RS. 18.03
BILLION COMPARED TO RS. 15.90 BILLION (REVISED ESTIMATE);
AND (5) OTHER RECEIPTS OF RS. 22.45 BILLION UP FROM
RS. 20.79 BILLION (REVISED) WHICH THIS YEAR INCLUDES
BORROWINGS OF RS. 8.0 BILLION AGAINST DRAWINGS OF
FOREIGN EXCHANGE RESERVES AND RS. 1.3 BILLION AGAINST
ACCRETIONS UNDER THE COMPULSORY DEPOSIT SCHEMES.

10. THE BUDGET ESTIMATES ARE THUS AS FOLLOWS:
(IN MILLIONS OF RUPEES):

	1976/77	1976/77	1977/78	
	BUDGET	REVISED	BUDGET	
REVENUE RECEIPTS	82,190	85,070	95,540	
CAPITAL RECEIPTS	44,230	52,520	59,420	
TOTAL	126,420	137,590	154,960	
REVENUE DISBURSEMENTS	76,900	85,540	94,870	
CAPITAL DISBURSEMENTS	52,800	56,300	60,810	
TOTAL	129,700	141,840	151,680	
OVERALL DEFICIT	3,280	4,250	720	

THE OVERALL 1977/78 DEFICIT OF RS. 720 MILLION TAKES
INTO ACCOUNT THE NET INCREASE IN TAXES OF RS. 1.3 BILLION.

10. COMMENT: THE 1977/78 BUDGET DID NOT MAKE ANY
STRIKING DEPARTURES IN SUBSTANCE FROM THE PAST. THOSE
WHO EXPECTED THE BUDGET TO REFLECT THE REORDERING OF
PRIORITIES--MAJOR EMPHASIS ON AGRICULTURE AND SMALL SCALE
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INDUSTRY, AN ASSAULT ON UNEMPLOYMENT, A DRASTIC REDISTRIBUTION OF INCOME--WERE DISAPPOINTED. GIVEN THE LIMITED TIME THE NEW GOVERNMENT HAS HAD AND THE EXPENDITURE COMMITMENTS OF THE OLD ADMINISTRATION, WHICH LEFT LITTLE SCOPE FOR SUBSTANTIAL CHANGE, SUCH EXPECTATIONS WERE UNREALISTIC. SOME INCREASE IN EXPENDITURES HAS BEEN PROVIDED TO THE AGRICULTURAL AND SMALL SCALE SECTORS, BUT DOES NOT APPEAR TO BE SIGNIFICANT WHEN TAKEN IN THE CONTEXT OF THE OVERALL PLAN.

11. RECEIPTS ARE MORE SUBJECT TO CHANGE AND ACCORDINGLY THE NEW BUDGET ADDED INCENTIVES AND DISINCENTIVES AIMED AT ENCOURAGING RURAL DEVELOPMENT, SMALL SCALE INDUSTRY AND SOME REDISTRIBUTION OF INCOME. BUT THE STEPS WERE CONSERVATIVE AND THE PRINCIPAL FOCUS WAS IN REDUCING THE PROJECTED DEFICIT (AND CONSEQUENTLY INFLATION-- THE MAIN OBJECTIVE OF THE NEW GOVERNMENT). THE VARIOUS INCENTIVES OF THE PRIVATE SECTOR HAVE PLEASED BUSINESSMEN, BUT HAVE GENERATED CRITICISM BY OPPOSITION CONGRESS POLITICIANS. SOME OF THE NEW MEASURES (ESPECIALLY THE INCREASE IN THE WEALTH TAX) WERE PROBABLY TAKEN AS MUCH FOR POLITICAL AS FOR ECONOMIC REASONS.

12. WE EXPECT OVER THE COMING MONTHS TO HEAR MORE ABOUT PLANS FOR RESTRUCTURING ECONOMIC GROWTH, AND THAT THE NEXT BUDGET WILL LARGELY IGNORE THE LAST YEAR OF THE FIFTH PLAN, MAKING IT MORE OF A TRANSITION INTO THE SIXTH FIVE YEAR PLAN BEGINNING IN 1979--THE FIRST JANATA PLAN. TO WHAT EXTENT THIS WILL TAKE PLACE, HOWEVER, WILL BE SEEN IN THE WEEKS AHEAD AS THIS BUDGET IS DEBATED IN THE LOK SABHA. THE AMOUNT OF CONCESSIONS THAT MUST BE MADE TO THE VARIETY OF SPECIAL INTERESTS WITHIN THE JANATA COALITION MAY DETERMINE THE FLEXIBILITY THE NEW GOVERNMENT HAS IN

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REORDERING PRIORITIES.GOHEEN

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Message Attributes

Automatic Decaptioning: X
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Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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